MINUTES
of the
SECOND MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE

July 22-23, 2015
Merrion Room, School of Energy
San Juan College
Farmington

The second meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Jane E. Powdrell-Culbert, chair, on Wednesday, July 22, 2015, at 10:05 a.m. in the Merrion Room of the School of Energy at San Juan College in Farmington.

Present	**Absent**
Rep. Jane E. Powdrell-Culbert, Chair	Sen. Joseph Cervantes, Vice Chair
Rep. David E. Adkins	Rep. Candy Spence Ezzell
Rep. Sharon Clahchischilliage	Rep. Dona G. Irwin
Sen. Lee S. Cotter	Rep. Stephanie Maez
Rep. Bealquin Bill Gomez	Rep. Andy Nunez
Sen. Ron Griggs	Sen. John C. Ryan
Rep. Patricia A. Lundstrom	Rep. Monica Youngblood
Sen. Richard C. Martinez	
Sen. Michael Padilla	
Sen. Nancy Rodriguez (7/22)	
Rep. Patricia Roybal Caballero	
Rep. Patricio Ruiloba	
Sen. William P. Soules	

Advisory Members

Rep. Alonzo Baldonado (7/23)	Sen. Sue Wilson Beffort
Rep. Kelly K. Fajardo	Sen. Jacob R. Candelaria
Sen. John Pinto	Rep. George Dodge, Jr.
Rep. Debbie A. Rodella	Rep. Brian Egolf
	Rep. Roberto "Bobby" J. Gonzales
	Sen. Stuart Ingle
	Rep. Sarah Maestas Barnes
	Sen. Bill B. O'Neill
	Sen. Mary Kay Papen
	Sen. William H. Payne
	Rep. Tomás E. Salazar
	Sen. Clemente Sanchez
	Rep. Sheryl Williams Stapleton
	Rep. Don L. Tripp

(Attendance dates are noted for members not present for the entire meeting.)

Staff
Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Kathleen Dexter, Researcher, LCS
Jeff Eaton, Fiscal Analyst, LCS
David Jenkins, Law Student Intern, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Wednesday, July 22

Welcome

Randy Pacheco, dean of the School of Energy at San Juan College, welcomed the committee to the school's recently completed new facility, which was constructed and equipped with funding from the legislature and from private industry. The School of Energy has been in existence for about 10 years, and the program it offers, unique in the nation, provides associate of applied science degrees in five areas critical to the extraction industry. In addition to employers in the immediate area, fuel companies from out of state and abroad recruit the school's graduates for jobs with starting salaries in the $50,000 range. The school's future initiatives include development of a low carbon emissions technology program, the state's first commercial driver's license (CDL) training program available to the public and the nation's first chief executive officer (CEO) training program.

Questions and Discussion

On questioning, Mr. Pacheco and committee members addressed the following topics.

School of Energy facility. British Petroleum contributed $5 million to construct and equip the facility and has designated the school as its "trainer of choice" in the U.S. The facility will be dedicated on September 15 and will bear the British Petroleum emblem and name.

School of Energy program. The School of Energy's recruitment efforts target adults as well as local high school students, who can take dual-credit course work in their senior year. The average cost for the two-year associate degree program, including tuition, fees and books, is about $5,000, with both industry-funded scholarships and legislative lottery tuition scholarships available to students. The school also provides certification classes for industry employees.

CDL training. Doña Ana Community College in Las Cruces has a CDL training program, and San Juan College has a program with 18 trucks and 15 examiners, but neither program currently has a track and backing range.

Tommy Roberts, mayor of the City of Farmington, also welcomed the committee and thanked members for their support of the community's NMFA-financed projects, including a metropolitan redevelopment project, water meter replacements and the purchase of a fire engine. He described national recognition that the area has received for its sports and recreation venues and events, including Farmington's municipal golf course; fishing and recreation sites on the San Juan River and at Navajo Lake; and the annual national youth baseball tournament. He also noted that Farmington has the only accredited municipal parks and recreation department in the state.

Farmington has received recognition for its exports and serves as the major retail hub for the region. Recent job growth has been concentrated in the retail sector. A potential economic growth opportunity lies in tourism, due to Farmington's cultural diversity and proximity to the Navajo Nation, the Northern Ute Tribe, the Southern Ute Tribe and the Jicarilla Apache Nation. In addition, San Juan College has a business incubator currently occupied by 13 young businesses.

Questions and Discussion

On questioning, Mayor Roberts and committee members discussed the following topics.

San Juan generating station. The Public Regulation Commission will hold a rehearing in September on the Public Service Company of New Mexico proposal to shut down two coal-fired units at the San Juan generating station. Closure of the entire facility could mean more than 700 direct industry jobs lost and up to 2,000 associated jobs lost in the area.

Hold harmless payments. Farmington has received "hold harmless" payments from the state since 2004, when sales of food and health care services became exempt from the gross receipts tax (GRT). With enactment of Laws 2013, Chapter 160, those hold harmless payments will be phased out. Even if the city imposes the additional .125% GRT increments authorized under law, the city still projects a loss to city revenue over the 15-year phase-out of the hold harmless payments. Farmington has not increased its increment of the GRT since the 1990s; its current GRT rate is among the lowest in the state. Even after imposition of additional GRT increments, it will remain competitive with surrounding areas.

Predatory lending. The Farmington City Council passed a resolution to support legislative efforts to impose a rate cap on particular consumer lending, sometimes referred to as "predatory lending". The committee instructed staff to recommend to the Legislative Finance Committee that Mayor Roberts be included on the consumer lending task force to be convened pursuant to House Memorial 131 from the 2015 regular session.

Small Businesses. Mayor Roberts agreed to provide information on the percentage of small businesses in the Farmington area that are locally owned and whether Local Economic Development Act (LEDA) money is going to those businesses.

Economic Development Revolving Fund Review

Marquita D. Russel, chief of programs, NMFA, and John Brooks, director of commercial lending, NMFA, gave an overview of the Economic Development Revolving Fund, which was created in 2003 with the enactment of the Statewide Economic Development Finance Act. The revolving fund receives money from both the state ($5.1 million to date) and the federal State Small Business Credit Initiative Act of 2010 ($13.2 million to date) and is segregated into two subaccounts to keep the two funding streams separate.

Through use of the revolving fund, the NMFA is able to purchase portions of loans made by local banks to economic development projects under two NMFA programs: the Smart Money Loan Participation Program and the Collateral Support Participation Program. Most of the Smart Money loans since the program's inception have been paid in full or as agreed or are current on their payments. One project was liquidated; the NMFA will recover fifty cents on the dollar of its initial investment and will pursue further reimbursement under the project's new ownership.

Under the original statute creating the Economic Development Revolving Fund, the NMFA was required to get legislative authorization for each project loan; however, a temporary exemption to this requirement for all non-state project loans was passed into law in 2011. In the first six years of the program and prior to the exemption being enacted, the NMFA made four Smart Money loans; since the exemption took effect in 2011, the NMFA has made 16 Smart Money loans. The exemption is due to expire in 2016, and Ms. Russel stated that this will likely reduce participation in the program and increase risk for those projects that do apply.

<u>Questions and Discussion</u>

On questioning, the presenters and committee members addressed the following topics.

Program success. The Collateral Support Participation Program has been more successful than the Smart Money program because it is federally funded. The 2017 federal budget proposal includes funding to continue the program.

Program eligibility. All projects are in New Mexico, though the headquarters for one project is out of state, and all entities meet the federal definition of "small business", which caps the number of employees at fewer than 500. The largest participant employs just under 200 workers.

Drinking Water State Revolving Loan Fund Project Update

Ms. Russel gave an update on the Drinking Water State Revolving Loan Fund, which receives $8 million annually from the federal Environmental Protection Agency (EPA) and has, since its creation in 1998, received $31.5 million in state funds. The fund is used by the NMFA to make loans to public water systems for drinking water facility improvement projects prioritized by the Department of Environment.

The EPA imposes a schedule for drawing down the drinking water funds, and New Mexico now leads the nation for spending on time after recently being ranked worst among the states. The state has $53.8 million on hand for further loans; beginning in 2016, the state will be required to reduce that on-hand balance to $15 million.

There are currently 29 projects either under construction or that have approved loans pending closure. Another 14 projects, totaling $47 million, have been prioritized by the Department of Environment for its fiscal year (FY) 2016 "fundable priority list". With those additional projects, the NMFA projects a $20 million funding shortfall to complete all of the current and prioritized projects in the drinking water program.

Questions and Discussion

On questioning, Ms. Russel and committee members addressed the following topics.

Interest rates. The base interest rate for loans is 2%. Cities and counties with a large percentage of disadvantaged residents qualify for 0% interest on the first $600,000 borrowed.

Grants. While statute does not allow use of the Drinking Water State Revolving Loan Fund for grants, the NMFA is able to do principal forgiveness in certain cases.

Funding shortfall. The projected funding shortfall on paper does not necessarily mean there will be an actual shortfall because approximately 40% of projects that apply for loan funding either do not proceed or pursue funding through other sources. Ms. Russel agreed to provide a list of the projects on the Department of Environment's FY 2016 fundable priority list.

Minutes

On a motion made and seconded, the minutes of the May meeting of the NMFA Oversight Committee were approved without objection.

New Markets Tax Credit Program

Ms. Russel and Mr. Brooks were joined by Steven Hansen, president and CEO, Presbyterian Medical Services, and Marc Welch, vice president of finance, Presbyterian Medical Services, to give a presentation on two Presbyterian Medical Services projects that participated in the federal New Markets Tax Credit Program administered by the NMFA.

Ms. Russel and Mr. Brooks reported that the program is a public-private partnership that authorizes community development entities to sell tax credits and use the proceeds to invest in businesses that meet three federal criteria: 1) they are located in census tracts designated as "highly distressed", such as areas with a poverty rate higher than 30%; 2) they will have a tangible community benefit, as measured by factors such as quality job creation; and 3) they are ready to proceed, with other funding sources committed and site control and approvals in place.

Tax credits can be used to fund up to 25% of a participating project, with the remainder of the project funded through Finance New Mexico, LLC, a for-profit community development entity established by the NMFA under legislative authorization granted in 2006. Since its creation, Finance New Mexico has received approximately $201 million in federal tax credits, of which about $151 million has been invested in projects.

Mr. Hansen reported that Presbyterian Medical Services used the New Markets Tax Credit Program to construct the Farmington Community Health Center and expand the Socorro family health center clinic for a savings of $2.8 million. Other projects that have participated in the program include SCHOTT Solar in Albuquerque, Pros Ranch Market in Las Cruces and 4Points Laguna at the Pueblo of Laguna.

Questions and Discussion

On questioning, the presenters and committee members addressed the following topics.

Program fees. Administrative and oversight costs in the New Markets Tax Credit Program are covered by fees that the NMFA collects at closing and when a project is completed.

Eligible areas. Some communities are split, with certain census tracts qualifying as highly distressed but others not. Most industrial areas in the state qualify because the few residents in such areas tend not to be wealthy.

Troubled projects. The NMFA funded the purchase and renovation of the Pros Ranch Market facilities. The original owners subsequently went bankrupt and sold the business, which operated for one year under new ownership. The original borrowers for the project are currently negotiating for new tenants in the space. SCHOTT Solar, which closed in 2012, paid back all but 5% of its anticipated revenue. "Clawback" provisions in the program's contracts cover 90% of the state's investment.

Project entities. A "leveraged lender" and an "investor" can be the same entity.

Medicaid and the Patient Protection and Affordable Care Act (PPACA). Federally qualified health centers have increased patient loads due to implementation of the federal PPACA and increased enrollment in Centennial Care, the state's Medicaid program. If the PPACA is overturned, the funding stream to clinics from enrollees in both health programs would be jeopardized and, consequently, the clinics' ability to pay off facility loans taken out under NMFA programs. Medicaid accounts for nearly half of Presbyterian Medical Services' revenue, and a reduction in or elimination of Medicaid would hurt the company. Some of the money Presbyterian Medical Services used for clinic construction and expansion came from grants through the PPACA.

Ms. Russel agreed to provide a breakdown of the New Markets Tax Credit Program at a future meeting, including: 1) use of the funds; 2) the loan process; 3) ways that tribal governments participate as leveraged lenders; and 4) a recap of community development reinvestment programs and their clawback provisions.

Water Trust Board Update

Ms. Russel gave an update on the Water Trust Board and recent changes the board made to its application process. With the changes, which are aimed primarily at helping smaller projects, entities have more time to complete the project application and to provide evidence that their projects comply with legal requirements and are ready to proceed.

The board's changes also provide more time for the legislature to review and approve projects prior to their inclusion in authorization legislation. Because the application cycle under the new time line will open in October, some project applications will not be ready for review in the current cycle and will have to wait until next year. The NMFA will provide the legislature with a fully vetted list of projects prior to the 2016 session.

Questions and Discussion

On questioning, Ms. Russel and committee members addressed the following topics.

Project lists. The project application system was overwhelmed prior to 2014, and the NMFA was not always able to provide a list of proposed projects to the legislature prior to the authorization bill being drafted. A recent bill that would have funded projects without naming them did not get through its senate committee hearings; had it been enacted, it would have given all project selection and funding authority to the executive branch.

Project funding. Projects are funded with a combination of grants and loans, with a minimum of 10% loan funding required on certain projects. Entities with rate-paying constituencies are required to take loan funding on their projects. Some projects, such as those for watershed restoration, qualify for federal funding; however, if state matching funds are required, severance tax bond proceeds may not be used for the state's match.

Eligible projects. Statute requires that projects be publicly owned or on certain types of property. Tribal projects are eligible, and some tribal projects are eligible for full grant funding. The Navajo-Gallup pipeline project was the largest project funded this year.

Application cycle. Because the new procedures and rules will not be finalized and published until late August and new applications will not be distributed until October, timing is very tight for the 2016 application cycle. The NMFA will use the annual Infrastructure Conference to help entities complete project applications and submit readiness documentation.

Water Project Fund distribution. The fund receives 10% of the total severance tax bond issuance in each year; thus, the amount appropriated to the fund varies annually. This year's distribution to the fund was $32.4 million.

Ms. Russel agreed to provide: 1) an overview of changes to Water Trust Board rules, including a possible point system for ranking projects, at the committee's October meeting; and 2) information on Water Trust Board projects, including the legislative districts in which they are located, at the committee's November meeting.

The committee requested that staff compile NMFA Oversight Committee discussions and actions in the last two or three years regarding the Water Trust Board and Water Project Fund. On a motion made, seconded and unanimously adopted, the committee approved a request that this information be presented at a meeting in December devoted solely to this topic. Committee staff will also invite representatives of the Navajo Nation to that meeting.

New Mexico Finance Authority Budget

Robert P. Coalter, CEO, NMFA, and Robert Brannon, chief financial officer, NMFA, presented a breakdown of the NMFA's proposed FY 2016 budget, including projected revenue and expenses.

The authority's budget request is a 5.4% increase over its FY 2015 budget and includes costs associated with three new initiatives planned for FY 2016: 1) attrition reduction; 2) improved web site resources to increase efficiency; and 3) a new compliance department.

Some of the budget increase is related to the proposed addition of two new employees for those initiatives. Other projected expenses include office renovation, furniture, fixtures and increases in annual health insurance renewals and merits.

Revenue in FY 2016 from all sources — appropriations, interest, fees and grants — is projected at $159.7 million. Loan closings for the same period are projected at $260 million for 181 participating projects, which is a sudden increase over the previous two years. Any net revenue after expenditures is rolled back into the NMFA loan programs; for FY 2015, this amounted to $43.5 million.

<u>Questions and Discussion</u>

On questioning, the presenters and committee members addressed the following topics.

Loan closings. The number of loans closed in a year depends on many factors, including delays in processing, but is not a reflection of the amount of money available.

Community project funding reserves. Some community projects, such as water systems, need major repairs but the local entities do not have cash to cover the cost. Some of these systems are already charging the maximum rate that their rate payers can bear. It is outside of the

NMFA's purview, but within the legislature's purview, to require that community projects keep a cash reserve.

Contractual costs versus other costs. The "contractual costs" line item on the NMFA budget includes legal expenses, bank fees, information technology support and payments for services provided by the Department of Environment, among other expenses. The "other costs" line item includes overhead expenses such as rent, utilities and telephone.

Governmental GRT. The NMFA receives its funding through the governmental GRT and has received approximately $27 million in governmental GRT revenue in the past few years. The tax is also used to fund loans for projects in disadvantaged communities.

Local Government Planning Fund. The deficit shown in this column reflects the lack of a revenue source for this program; the number reflects a transfer from the governmental GRT. The fund cannot be used for local government audits; it must be used for capital projects. Mr. Brannon agreed to provide the committee with information on continuing bond closings for Governor Richardson's Investment Partnership projects.

Public Project Revolving Fund (PPRF) Projects

Mr. Coalter was joined by Zach Dillenback, chief lending officer, NMFA, and Teresa Brevik, projects manager, City of Bloomfield, for a presentation on projects funded through the PPRF.

Thirty-four entities in San Juan County, including municipalities, school districts, colleges, water systems and the county itself, have taken out PPRF loans totaling $136.6 million. The loans have primarily been used to finance capital projects, but also have been used to issue "education technology notes" for the Farmington Municipal School District. In the San Juan County, McKinley County, Cibola County and Rio Arriba County region, the NMFA has made more than $340 million in PPRF loans.

Since 2002, the City of Bloomfield has financed several infrastructure projects through various NMFA programs. The city's 11 PPRF loans have financed: a fiber optics connectivity project in municipal buildings; landscaping and utilities relocation along New Mexico Highway 64; energy-efficiency retrofits on municipal buildings; and construction of a public safety complex.

<u>Questions and Discussion</u>

On questioning, the presenters clarified issues regarding school projects, including that: 1) loan repayments by "impact aid" school districts were not affected by federal sequestration; 2) charter schools that have already gone through one charter renewal are eligible for PPRF funding, and their loan repayments are made with their lease assistance funds; and 3) public school and charter school projects are also eligible for funding through the Public School Capital Outlay Council.

Four Corners Petrochemical Cluster Opportunities

Ray Hagerman, CEO, Four Corners Economic Development, gave a presentation on development opportunities that can enhance the petrochemical industry in the region. The area has a long history of raw natural gas production; however, this gas "feedstock" has historically been transported to the Gulf Coast region for processing, or "cracking". Recent changes in technology make it possible to establish cracking facilities closer to the source of the feedstock, including in the Four Corners region. The development of local cracking facilities could create not only new core industry jobs but also jobs in related manufacturing, such as the manufacture of plastics and consumer goods. In addition to creating products for global export, cracking facilities could also produce items for local use, such as urea, which will be used in retrofits planned for the San Juan generating station and also used extensively in agriculture.

On questioning, Mr. Hagerman further noted that: 1) a New Mexico Institute of Mining and Technology student is conducting a study to assess the economic feasibility of developing a cracking industry in the region; 2) Mr. Hagerman has spoken with San Juan County officials about the possibility of issuing industrial revenue bonds to develop the industry; and 3) a company is looking at sites for building a urea plant in the area.

Unfinished Business

Representative Powdrell-Culbert announced that the September 10-11 meeting location has been changed from Hobbs to Artesia.

In discussion regarding the Water Trust Board and its new schedule for project applications, the committee moved that an extra meeting day in December be requested from the New Mexico Legislative Council in order to review a complete list of water projects vetted by the Water Trust Board. If the additional day is not approved by the council, then the request will be to change one of the October meeting days to a December meeting day for that purpose.

Thursday, July 23

Community Report on the Use of the Local Government Planning Fund

Jeff Kiely and Evan Williams, executive director and deputy director, respectively, Northwest New Mexico Council of Governments; Michael Sage, deputy director, Greater Gallup Economic Development Corporation; Maryann Ustick, Gallup city manager; C.B. Strain, Gallup city planner; and Ms. Russel gave a presentation on projects in the Gallup area that have benefited from NMFA planning grants through the Local Government Planning Fund.

Originally created in 2002 as the Water and Wastewater Planning Fund, the fund was later renamed the Local Government Planning Fund, and its eligible uses were expanded to also cover planning for infrastructure and economic development. The maximum grant allowable is \$50,000. An entity may receive multiple grants, but no more than \$100,000 in a 24-month period. When making grants, the NMFA considers median household incomes, status as a "severely disadvantaged area" and each applicant's "local burden ratio". Since 2002, the NMFA has made or approved planning grants for 123 projects totaling nearly $4 million.

The Greater Gallup Economic Development Corporation received a planning grant for the preliminary engineering report and traffic study that launched the Gallup Energy Logistics Park project, a major railroad and highway transportation hub west of Gallup. Another planning grant went to Gallup for a major downtown redevelopment project that will be constructed with a blend of local, state and federal funds. The city is considering tax increment financing, community development block grant funding, utility enterprise funding and public-private investment for the project and will include all selected funding options in its final plan.

<u>Questions and Discussion</u>

On questioning, the presenters and committee members addressed the following topics.

Planning grants. Councils of governments are not eligible to receive planning grants because they are not defined as qualified entities in the NMFA Act. As the program is currently structured, they are also not in a financial position to provide project funding up front for later reimbursement. Some engineering firms in the state are willing to bill the NMFA directly rather than require payment from the local entity.

Gallup Energy Logistics Park. The energy park project has received LEDA funds as well as funds through the federal Economic Development Administration. One estimate for job creation resulting from the energy park is 200 to 300 long-term economic base jobs and an additional 700 to 800 peripheral service jobs.

Community development block grants. New Mexico project entities do not tend to seek federal community development block grants. A portion of the grant program is run by the states; New Mexico could revise some of the rules to make the program more accessible to local projects.

Gallup downtown redevelopment. The anchor plan for the Gallup downtown redevelopment does not yet have a "brand", but it highlights jewelry and the historic El Morro Theatre.

Jicarilla Apache Nation PPRF Projects

Leon Reval, council member, Jicarilla Apache Nation, and Mr. Dillenback gave a presentation on projects that the Jicarilla Apache Nation has financed with loans through the PPRF.

The nation took PPRF loans in 2004 and 2006 totaling more than $33 million to improve and expand its water and wastewater systems, and it secured the loans with the nation's capital improvements tax and water lease revenues. The balance on both loans — about $9 million — was refunded and the loan was restructured in 2012 as a general obligation of the nation, with final payment due in May 2016. The nation has also taken a refunding loan through the NMFA to retire a 2002 bond series, as well as an improvement loan to expand the wastewater treatment plant and construct a community center.

Questions and Discussion

On questioning, the presenters and committee members addressed the following topics.

Choice of funding sources. The nation chose to finance through the NMFA rather than pursue grants through the U.S. Department of Agriculture because NMFA financing is the faster route. The nation could also have paid for the improvements with cash rather than with loans, but it chose the loans in an effort to balance its current and future resources.

Community center. The new community center will include a daycare center and possibly facilities for seniors.

Bond ratings. The nation's bond rating is AAA.

Wastewater projects. Water Project Fund grants cannot be used on wastewater projects, with the exception of certain effluent projects.

Mr. Reval invited the committee to the annual Jicarilla Apache Nation feast day on September 15.

Adjournment

There being no further business before the committee, the second meeting of the NMFA Oversight Committee adjourned at 11:15 a.m.